

**REPORT OF THE AUDIT OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

November 22, 2002



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

November 22, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Clinton County Sheriff as of November 22, 2002. We have issued a qualified opinion on the financial statement taken as a whole. The Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America.

Financial Condition:

The Sheriff collected taxes of \$1,683,602 for the districts for 2001 taxes, earning commissions of \$69,646 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,596,568 to the districts for 2001 Taxes. Taxes of \$15,686 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Eliminate The \$41,826 Deficit In His Tax Account
- The Sheriff Should Close His Tax Accounts By Paying All Amounts Owed
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Record All Tax Collections On Receipts Ledger
- The Sheriff Should Prepare Tax Settlement By September 1
- The Sheriff Should Publish Settlement
- The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30
- The Sheriff Should Pay Advertising Costs To The Fiscal Court
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk
- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$62,250 To Protect Deposits
- Lacks Adequate Segregation of Duties
- The Sheriff Should Improve Recordkeeping Procedures

Litigation:

- On July 21, 2000, Clinton County legal counsel, on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Franklin Circuit Court against Clinton County Sheriff Kay Riddle and his bonding companies, Great American Insurance Company and United Pacific Insurance Company. This lawsuit seeks to recover \$58,797 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement - 1997 Taxes and Sheriff's Settlement - 1998 Taxes. However, as of November 22, 2002, the Sheriff has paid the following amounts included in the \$58,797: \$227 to the Kentucky State Treasurer and \$28,807 to the Clinton County Board of Education. The suit's outcome cannot be predicted at this time.

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES
November 22, 2002
(Continued)

Litigation: (Continued)

- On December 11, 2000, legal counsel, on behalf of the Clinton County Sheriff, filed a lawsuit in Clinton Circuit Court against the former Clinton County Judge/Executive in her official capacity. On January 6, 2003, the lawsuit transferred against the new Clinton County Judge/Executive in his official capacity. This lawsuit seeks to recover \$53,814 due from the Clinton County Fiscal Court per audit report for Clinton County Sheriff - Calendar Year 1999. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. The suit's outcome cannot be predicted at this time.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Donnie McWhorter, Clinton County Judge/Executive

Honorable Kay Riddle, Clinton County Sheriff

Members of the Clinton County Fiscal Court

Independent Auditor's Report

We have audited the Clinton County Sheriff's Settlement - 2001 Taxes as of November 22, 2002. This tax settlement is the responsibility of the Clinton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America.

In our opinion, except for the effects of any matters that might have been disclosed if we had been provided a legal representation letter, the accompanying financial statement referred to above presents fairly, in all material respects, the Clinton County Sheriff's taxes charged, credited, and paid as of November 22, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Donnie McWhorter, Clinton County Judge/Executive
Honorable Kay Riddle, Clinton County Sheriff
Members of the Clinton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Eliminate The \$41,826 Deficit In His Tax Account
- The Sheriff Should Close His Tax Accounts By Paying All Amounts Owed
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Record All Tax Collections On Receipts Ledger
- The Sheriff Should Prepare Tax Settlement By September 1
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- The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30
- The Sheriff Should Pay Advertising Costs To The Fiscal Court
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk
- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$62,250 To Protect Deposits
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Recordkeeping Procedures

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, except for the effects of any matters that might have been disclosed if we had been provided a legal representation letter, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 8, 2003

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

November 22, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 124,182	\$ 165,346	\$ 919,865	\$ 312,754
Tangible Personal Property	12,191	10,972	62,520	70,903
Intangible Personal Property				6,178
Fire Protection	1,000			
Franchise Corporation Taxes	14,125	13,201	74,582	
Additional Billings	680	906	5,039	1,713
Oil and Gas Property Taxes	955	1,271	7,071	2,404
Limestone, Sand, and Mineral Reserve Taxes	42	56	313	106
Penalties	1,753	2,167	12,088	5,233
Adjusted to Sheriff's Receipt	124	125	665	3
Gross Chargeable to Sheriff	<u>\$ 155,052</u>	<u>\$ 194,044</u>	<u>\$ 1,082,143</u>	<u>\$ 399,294</u>
<u>Credits</u>				
Exonerations	\$ 1,329	\$ 1,694	\$ 9,440	\$ 3,755
Discounts	1,906	2,451	13,652	5,094
Delinquents:				
Real Estate	7,678	10,179	56,626	19,253
Tangible Personal Property	653	587	3,347	736
Uncollected Franchise Taxes	1,067	1,179	6,305	
Total Credits	<u>\$ 12,633</u>	<u>\$ 16,090</u>	<u>\$ 89,370</u>	<u>\$ 28,838</u>
Taxes Collected	\$ 142,419	\$ 177,954	\$ 992,773	\$ 370,456
Less: Commissions *	6,340	7,563	39,711	16,032
Taxes Due	\$ 136,079	\$ 170,391	\$ 953,062	\$ 354,424
Taxes Paid	133,747	168,210	940,590	354,021
Refunds (Current and Prior Year)	137	179	1,022	364
Due Districts as of		**		
Completion of Fieldwork	<u>\$ 2,195</u>	<u>\$ 2,002</u>	<u>\$ 11,450</u>	<u>\$ 39</u>

The accompanying notes are an integral part of this financial statement.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
November 22, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	680,829
4% on	\$	992,773

** Special Taxing Districts:

Library District	\$	642
Health District		564
Extension District		793
Soil Conservation District		<u>3</u>
Due Districts	\$	<u><u>2,002</u></u>

The accompanying notes are an integral part of this financial statement.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT

November 22, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 7, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$62,250 of public funds uninsured and unsecured.

CLINTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 November 22, 2003
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 7, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by the county official's agent in the county official's name	\$ 970,000
FDIC insured	100,000
Uncollateralized and uninsured	<u>62,250</u>
Total	<u>\$ 1,132,250</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2001 through September 28, 2002.

Note 4. Interest Income

The Clinton County Sheriff earned \$1,226 as interest income on 2001 taxes. As noted in the comments and recommendations section of this report, the Sheriff should distribute the appropriate amount to the school district as required by statute, and the remainder should be used to operate the Sheriff's office. As of November 22, 2002, the Sheriff owes \$694 in interest to the school district and \$532 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Clinton County Sheriff collected \$15,795 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of November 22, 2002, the Sheriff owes \$1,042 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Clinton County Sheriff collected \$600 of advertising costs and \$600 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of November 22, 2002, the Sheriff owes \$600 in advertising costs to the county and \$235 in advertising fees to his fee account.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
November 22, 2003
(Continued)

Note 7. Utility Gross Receipts License Tax For Schools

The utility gross receipts license tax is imposed by the Clinton County Board of Education. The Board of Education collects this license tax directly from companies. During the 2001 tax collection period, the Clinton County Sheriff inadvertently collected \$539 of utility gross receipts license tax. Since this license tax should have been paid directly to the Board of Education, the Sheriff is not entitled to any tax commissions on this money. As of November 22, 2002, the Sheriff owes \$539 in utility gross receipts license tax to the Clinton County Board of Education.

Note 8. Litigation

- On July 21, 2000, Clinton County legal counsel, on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Franklin Circuit Court against Clinton County Sheriff Kay Riddle and his bonding companies, Great American Insurance Company and United Pacific Insurance Company. This lawsuit seeks to recover \$58,797 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement - 1997 Taxes and Sheriff's Settlement - 1998 Taxes. However, as of November 22, 2002, the Sheriff has paid the following amounts included in the \$58,797: \$227 to the Kentucky State Treasurer and \$28,807 to the Clinton County Board of Education. The suit's outcome cannot be predicted at this time.
- On December 11, 2000, legal counsel, on behalf of the Clinton County Sheriff, filed a lawsuit in Clinton Circuit Court against the former Clinton County Judge/Executive in her official capacity. On January 6, 2003, the lawsuit transferred against the new Clinton County Judge/Executive in his official capacity. This lawsuit seeks to recover \$53,814 due from the Clinton County Fiscal Court per audit report for Clinton County Sheriff - Calendar Year 1999. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. The suit's outcome cannot be predicted at this time.

Note 9. Deficit Balance

Based on available records, there is a \$41,826 deficit in the Sheriff's official tax account. This results from a deficit of \$42,481 reduced by a deposit of personal funds in the prior year totaling \$655. The deficit of \$42,481 results from undeposited 2001 tax receipts of \$3,203, a state penalty of \$24, and prior year uncollected monies from various sources.

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SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

November 22, 2002

Assets

Cash in Bank (All Tax Accounts)	\$ 10,424
Collected Receivables	<u>6,342</u>
Total Assets	<u>\$ 16,766</u>

Liabilities

Outstanding Checks	\$ 10,621
Unpaid Obligations:	
Kentucky State Treasurer - 2001 Taxes	\$ 39
Other Taxing Districts-	
Clinton County-	
Fiscal Court	\$ 10,456
Board of Education	25,297
Library District	2,134
Health District	2,305
Extension District	2,330
Soil Conservation District	<u>1,285</u>
Total Net Amount Due to Taxing Districts	43,807
Net Amounts Due Sheriff's Fee Account-	
2002 Fee Account	2,144
Refunds Due Taxpayers	<u>1,981</u>
Total Unpaid Obligations	<u>47,971</u>
Total Liabilities	<u>\$ 58,592</u>
Total Fund Deficit as of November 22, 2002	<u><u>\$ (41,826)</u></u>

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COMMENTS AND RECOMMENDATIONS

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

November 22, 2002

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Eliminate The \$41,826 Deficit In His Tax Account

Based on available records, there is a \$41,826 deficit in the Sheriff's official tax account. This results from a deficit of \$42,481 reduced by a deposit of personal funds in the prior year totaling \$655. The deficit of \$42,481 results from undeposited 2001 tax receipts of \$3,203, a state penalty of \$24, and prior year uncollected monies from various sources. We recommend that Sheriff Riddle eliminate the deficit with of \$41,826 with a deposit of personal funds and require that all tax receipts be deposited into the tax bank account on a daily basis.

Sheriff's Response:

The current fiscal court owes a large amount of money from prior years, this would eliminate the deficit. At this time it is still in litigation.

2) The Sheriff Should Close His Tax Accounts By Paying All Amounts Owed

The proper distribution of tax money collected by the Sheriff requires the collection of net receivable from the state and the payment of net amounts due to the appropriate taxing districts. The following net payables (1997 tax year - 2001 tax year) should be made:

Kentucky State Treasurer	\$	39
Sheriff's 2002 Fee Account		2,144
Clinton County-		
Fiscal Court		10,456
Board of Education		25,297
Library District		2,134
Health District		2,305
Extension District		2,330
Soil Conservation District		1,285
Refunds Due Taxpayers		<u>1,981</u>
Total	\$	<u><u>47,971</u></u>

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
November 22, 2002
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2) The Sheriff Should Close His Tax Accounts By Paying All Amounts Owed (Continued)

We recommend that the Sheriff pay the taxing districts the net amounts that are owed to them.

Sheriff's Response:

Same as before, prior audits showed the county owing monies totaling approximately \$63,000.00 to this office, when it is paid, then I can pay other obligations.

3) The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month

In some months, the Sheriff did not report and distribute money collected during the preceding month by the tenth of the following month as required by KRS 134.300. In other months, the Sheriff neither reported nor paid taxes at all. We recommend the Sheriff comply with KRS 134.300 which requires the reporting and distribution of each month's collections by the tenth of the following month.

Sheriff's Response:

We do the best we can to provide reports accordingly.

4) The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “. . . that part of investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2001 tax collections, Sheriff Riddle earned interest of \$1,226 on his tax account. However, Sheriff Riddle did not pay the interest to the board of education or the fee account on a monthly basis. As of November 22, 2002, the Sheriff owes \$694 in interest to the Clinton County Board of Education and \$532 in interest to his fee account. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response:

We will pay the Board of Education the interest earned, and will pay monthly with reports.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
November 22, 2002
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

5) The Sheriff Should Deposit Funds Intact On A Daily Basis

Technical Audit Bulletin 93-002, Section 3 and Section 4, requires the Sheriff to reconcile daily collections to daily deposits and to deposit funds intact on a daily basis. During 2001 tax collections, we noted that computerized tax collection reports were not printed daily and reconciled to the cash drawer. When these tax collection reports were printed, they included anywhere from a couple of days to an entire month. Additionally, it was noted that deposits were not made intact on a daily basis. We recommend the Sheriff print daily tax collection reports, reconcile these collection reports to the funds collected and deposit these tax collections into the tax bank account daily.

Sheriff's Response:

We try to make deposits on a daily basis and during tax seasons sometimes 3 and 4 times a day.

6) The Sheriff Should Record All Tax Collections On Receipts Ledger

KRS 134.160 requires the Sheriff to "keep an accurate account of all moneys received by him, showing the amount, the time when and the person from whom received, and on what account." The Sheriff did not record all money collected on his receipts ledger. We recommend the Sheriff comply with KRS 134.160 that requires an accurate account of all moneys received.

Sheriff's Response:

They were recorded to my knowledge, I do not know any other way of recording them, but will be open to suggestions.

7) The Sheriff Should Prepare Tax Settlement By September 1

Sheriff Riddle should make his tax settlement with the fiscal court by September 1 each year as required by KRS 134.310. The fiscal court approved the Sheriff's settlement on November 22, 2002. KRS 134.310 states "the report of the state and local settlement shall be filed in the county Clerk's office and approved by the county judge/executive no later than September 1 of each year." We recommend the Sheriff comply with this statute.

Sheriff's Response:

I will see that this matter is corrected.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
November 22, 2002
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

8) The Sheriff Should Publish Settlement

The Sheriff did not publish his settlement of 2001 taxes. KRS 134.310(2) requires the publishment of Sheriff's settlement. The settlement should be published pursuant to KRS Chapter 424. We recommend the Sheriff publish his settlement in the future.

Sheriff's Response:

Same as above.

9) The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30

KRS 134.325 requires the Sheriff to "conduct the sale of delinquent tax bills required by KRS 134.430 and make his records available for settlement with the Revenue Cabinet for all taxes collected for the Commonwealth before April 30 of each year during his term of office." The Sheriff conducted the sale of delinquent tax bills on September 28, 2002. Therefore, the Revenue Cabinet was unable to complete a settlement until October 17, 2002. We recommend the Sheriff conduct the sale of delinquent tax bills and make his records available for settlement with the Revenue Cabinet for all taxes collected for the Commonwealth before April 30 each year.

Sheriff's Response:

We will conduct sale of taxes by April, when possible, but when taxes are later being sent out it makes it harder on the office and taxpayer.

10) The Sheriff Should Pay Advertising Costs To The Fiscal Court

KRS 134.440 requires that advertising costs recovered from the taxpayers be paid to the fiscal court when the fiscal court has previously paid this expense. Sheriff Riddle collected \$600 in advertising costs from taxpayers during 2001 tax year. We recommend the Sheriff pay \$600 to the County Treasurer.

Sheriff's Response:

We will pay the fiscal court for advertising cost. In the past, we were often billed for envelopes to mail out taxes, which was the county's responsibility to pay.

11) The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk

The Sheriff is required to transfer any delinquent franchise tax bills to the county Clerk after the tax sale and settlement. We recommend the Sheriff transfer any delinquent tax bills to the county Clerk after the tax sale and settlement are completed.

Sheriff's Response:

We did not know this until Mr. Ed Lanham brought it to our attention, while doing our tax settlement, then we have been written up for it every since. We will turn them over to the Clerk.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
November 22, 2002
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

12) The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$62,250 To Protect Deposits

On December 7, 2001, \$62,250 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

I will watch this more closely and make sure it doesn't happen.

INTERNAL CONTROL - REPORTABLE CONDITIONS

13) Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties over receipts. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties over receipts. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts ledger and disbursements ledger. Any differences should be reconciled. He could document this by initialing the monthly tax reports, receipts ledger, and disbursements ledger.
- The Sheriff should recount and deposit cash. He could document this by initialing the bank deposit.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

We do the best we can with the monies we have to operate on.

CLINTON COUNTY
 KAY RIDDLE, COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 November 22, 2002
 (Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS (Continued)

14) The Sheriff Should Improve Recordkeeping Procedures

Several areas were noted where the Sheriff had poor recordkeeping procedures.

- a) Processing of franchise tax collections should be improved. Payments for franchise tax bills are held for months before being deposited to the official bank account. Also franchise tax bills were not marked paid. Franchise tax bills should be marked paid upon collection. The payment should be deposited within three business days to the official bank account and recorded on the receipts ledger.
- b) Discounts and penalties on all oil property tax bills and franchise tax bills were not reported. All discounts credited and penalties collected should be included on monthly tax reports.
- c) Reconciliation of monthly tax collection to the monthly tax distribution was not always performed. By reconciling these amounts the Sheriff could ensure that all tax collected had been reported and paid to the taxing districts.
- d) A list of returned checks was not maintained. A list of returned checks noting the date of redeposit should be maintained. In addition, redeposits of returned checks should be made as separate deposits. The deposit slip should be marked as a redeposit of a returned check and the name of the party listed. Any uncollected returned checks should result in the corresponding tax bill being included on the delinquent tax list.

Sheriff's Response:

We are requesting the Revenue Cabinet check our computer system, we feel it is out dated and other counties are also having problems with the current system. They are working with us to make positive changes. Our bookkeeping will improve also because we will be able to put other programs on the computer, besides just taxes.

PRIOR YEAR:

In the prior year audit report, we made the following comments and recommendations that have not been corrected.

- The Sheriff Should Close His Tax Accounts By Collecting All Receivables And Paying All Amounts Owed
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Prepare Tax Settlement By September 1
- The Sheriff Should Publish Settlement
- The Sheriff Should Pay Advertising Costs To The Fiscal Court
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk
- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral \$75,658 To Protect Deposits
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Recordkeeping Procedures

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Donnie McWhorter, Clinton County Judge/Executive
Honorable Kay Riddle, Clinton County Sheriff
Members of the Clinton County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Clinton County Sheriff's Settlement - 2001 Taxes as of November 22, 2002, and have issued our report thereon dated September 8, 2003. The Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America. Except as discussed in the prior sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Clinton County Sheriff's Settlement - 2001 Taxes as of November 22, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The \$41,826 Deficit In His Tax Account
- The Sheriff Should Close His Tax Accounts By Paying All Amounts Owed
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Record All Tax Collections On Receipts Ledger
- The Sheriff Should Prepare Tax Settlement By September 1
- The Sheriff Should Publish Settlement



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance (Continued)

- The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30
- The Sheriff Should Pay Advertising Costs To The Fiscal Court
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk
- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$62,250 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clinton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Recordkeeping Procedures

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 8, 2003

